

V. TRANSACTIONS WITH AFFILIATES

OVERVIEW

Ameritech is required pursuant to Section 64.903(a)(4) to provide in its cost allocation manual (CAM or ACAM) a statement identifying each affiliate that engages in or will engage in transactions with the Ameritech Operating Companies (AOCs) describing the terms, frequency and nature of each transaction. This section fulfills that requirement and discloses how Ameritech complies with another portion of the FCC's Rules found in Section 32.27, Transactions with Affiliates, that describe how the AOCs must record affiliate transactions. Please note that these Rules were most recently modified with the Accounting Safeguards Order (CC Docket No. 96-150, Released, December 24, 1996). Pursuant to Responsible Accounting Officer (RAO) Letter 19 (Released December 23, 1991), these statements of compliance must take place in Section V of the CAM.

Pursuant to RAO Letter 26, Released, May 6, 1998, the ACAM must also:

- precisely define the terms of transactions listed in this section,
- narrowly identify the frequency with which each identified transaction occurs,
- provide a brief narrative description of each affiliate that engages in or will engage in transactions,
- concisely list the assets and services provided, and
- submit a matrix summarizing the transactions that the AOCs engage in or will engage in with each affiliate.

These requirements are further outlined below in the sections entitled, "Terms of Transactions," "Frequency of Transactions," "Listing of Affiliates," and "Listing of Services and Assets Provided." Additionally, this section contains two exhibits. Exhibit V-1 is a listing of transactions provided by the AOCs to nonregulated affiliates. Exhibit V-2 is a listing of transactions provided by nonregulated affiliates to the AOCs. Both exhibits are similar to the matrix filed as Appendix C to RAO Letter 26.

TERMS OF TRANSACTIONS

RAO Letter 26 requires that the ACAM include clear and uniform definitions of the valuation methodologies the AOCs must use in recording transactions between regulated and nonregulated affiliates. The following definitions and terminologies are used by the AOCs and their affiliates:

General Definitions

- (1) Tariffed Rates - rates provided pursuant to documents filed with state or federal regulatory authorities.
- (2) Publicly-filed Agreements/Statements of Generally Available Terms - charges appearing in publicly-filed agreements submitted to a State commission pursuant to Section 252(e) or statements of generally available terms pursuant to Section 252(f) in place of tariffed rates when tariffed rates are not available.



General Definitions (Continued)

- (3) **Prevailing Price** - the price at which a company offers an asset or service to the general public. In order to qualify for prevailing price valuation, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 50 percent threshold on an asset-by-asset and service-by-service basis rather than on a product line or service line basis.
- (4) **Fair Market Value** - the price at which property or a service would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.
- (5) **Net Book Cost** - the original cost of an asset adjusted by the associated valuation reserves (e.g., accumulated depreciation, deferred taxes, etc.).
- (6) **Fully Distributed Cost** - cost determined in a manner that complies with the standards and procedures for the apportionment of special, joint, and common costs between the regulated and nonregulated operations of a carrier in accordance with Section 64.901(b) of the Commission's Rules. A fully distributed costing methodology apportions the total costs of a group of services or products, including the authorized interstate rate of return (currently 11.25%), among the individual services or products in that group.

Provision Of Services

Below are explanations of affiliate transaction terms used for the provision of services and for asset sales and transfers between the AOCs and their nonregulated affiliates. Please note that these rules are hierarchically based. For example, when a specific service is provided either by an AOC or a nonregulated affiliate, the first determination that must be made is whether the providing entity has a tariff rate for the same service. Where there is no tariff rate for the providing entity's specific service, a determination must be made if there is a prevailing price. If there is no prevailing price for the providing entity's service, a calculation of the providing entity's fully distributed cost (FDC) must be performed and compared to a fair market value (FMV [determined on a good faith effort]). When the providing entity is an AOC, the higher of FDC or FMV must be recorded. When the providing entity is a nonregulated affiliate, the amount recorded is the lower of FDC or FMV.

Similarly, asset sales and transfers are first made at a tariff rate, if a tariff rate is available. Where a tariff rate is not available for the asset, and the asset to be sold or transferred qualifies for prevailing price, the prevailing price is used to record the transaction. Where a non-tariffed asset sale not qualifying for prevailing price is made by the AOCs to their nonregulated affiliates, the higher of fair market value and net book cost is recorded by the AOC. Where a non-tariffed asset sale not qualifying for prevailing price is made by a nonregulated affiliate to the AOCs, the lower of fair market value and net book cost is recorded by the AOC.

- (1) **Tariff Rate** - is to be used when services are sold or transferred between the AOCs and their nonregulated affiliates pursuant to existing tariffs, including a tariff filed with a state commission.

Provision Of Services (Continued)

- (2) **Publicly-filed Agreement Rates** - are to be used when non-tariffed services are sold or transferred between the AOCs and their nonregulated affiliates pursuant to publicly filed agreements submitted to state commissions pursuant to Section 252(e) of the Communications Act of 1934, as amended, (the Act) or statements of generally available terms pursuant to Section 252(f).
- (3) **Prevailing Price** - is to be used when non-tariffed services are sold or transferred between the AOCs and their nonregulated affiliates that qualify for prevailing price. To qualify for prevailing price, the sale of a particular service must encompass greater than 50% of the total quantity of such service sold by an entity. The AOCs and their nonregulated affiliates shall apply this 50 percent threshold on a service-by-service basis rather than on a service-line basis. In the case of transactions for services subject to 47 U.S.C. Section 272, the AOCs may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.
- (4) **Higher of Fair Market Value and Fully Distributed Cost** - is to be used for all other services sold by or transferred from the AOCs to their nonregulated affiliates that do not qualify for tariffed rate, publicly-filed agreement rates or prevailing price as defined in (1), (2) and (3) above. For each service listed under this classification, the specific valuation method in effect at the time of the most recent ACAM filing is identified by inserting either FMV or FDC next to each service listed in Exhibit V-1.
- (5) **Lower of Fair Market Value and Fully Distributed Cost** - is to be used for all other services purchased by or transferred to the AOCs from their nonregulated affiliates to provide services received by a carrier from its affiliate that do not qualify for tariffed rate, publicly-filed agreement rates or prevailing price as defined in (1), (2) and (3) above. For each service listed under this classification, the specific valuation method in effect at the time of the most recent ACAM filing is identified by inserting either FMV or FDC next to each service listed in Exhibit V-2.
- (6) **Fully Distributed Cost** - is to be used only when the AOCs purchase services from an affiliate that exists solely to provide services to members of the AOCs' corporate family. In order to qualify for this classification, the services affiliate must not have any sales with outside parties.
- (7) **Fully Distributed Cost Plus a Subsidy** - in their Order in AAD Nos. 92-22 through 92-35 released May 7, 1993 [paragraph 16], the Commission allowed carriers to identify each applicable transaction with their publishing affiliate allowing the carrier to recover its fully distributed cost [as described in (6) above] plus a subsidy without seeking a waiver to the Commission's affiliate transaction rules for those transactions.
- (8) **No Charge** - in their Order in AAD Nos. 92-22 through 92-35 released May 7, 1993 [paragraph 31], the Commission stated that terms used by a Carrier, except those specified in their Order, are "permissible only upon a showing as to why it is more favorable for ratepayers than the terms provided in the affiliate transaction rules. If a LEC wishes to use a term that is inconsistent with these requirements, that LEC must file for, and obtain, a waiver." Such waiver of the Part 32.27 Rules was filed by Ameritech with the Commission on December 30, 1994.

Asset Sales/Transfers

- (1) **Tariff Rate** - is to be used when assets are sold or transferred between the AOCs and their nonregulated affiliates pursuant to existing tariffs, including a tariff filed with a state commission.
- (2) **Prevailing Price** - is to be used when non-tariffed assets are sold or transferred between the AOCs and their nonregulated affiliates that qualify for prevailing price. To qualify for prevailing price, the sale of a particular asset must encompass greater than 50% of the total quantity of such product sold by an entity. The AOCs and their nonregulated affiliates shall apply this 50 percent threshold on an asset-by-asset basis rather than on a product-line basis. In the case of transactions for assets subject to 47 U.S.C. Section 272, the AOCs may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.
- (3) **Higher of Fair Market Value and Net Book Cost** - is to be used for all other assets sold by or transferred from the AOCs to their nonregulated affiliates that do not qualify for tariffed rate or prevailing price as defined in (1) and (2) above. For each asset listed under this classification, the specific valuation method in effect at the time of the most recent ACAM filing is identified by inserting either FMV or NBC (net book cost) next to each asset listed in Exhibit V-1.
- (4) **Lower of Fair Market Value and Net Book Cost** - is to be used for all other assets purchased by or transferred to the AOCs from their nonregulated affiliates that do not qualify for tariffed rate or prevailing price as defined in (1) and (2) above. For each asset listed under this classification, the specific valuation method in effect at the time of the most recent ACAM filing is identified by inserting either FMV or NBC next to each asset listed in Exhibit V-2.

FREQUENCY OF TRANSACTIONS

RAO Letter 26 also addressed the frequency with which affiliate transactions occur. The FCC now narrowly describes how these durations are defined, and specific coding was provided. If the codes that are used in the ACAM do not fit a particular circumstance, Ameritech is instructed to contact the FCC's Accounting Safeguards Division for prior approval before adding a code.

A listing of valid codes from RAO Letter 26 is below:

D = Daily
W = Weekly
M = Monthly
Q = Quarterly
A = Annually
O = Occasionally



LISTING OF AFFILIATES

Below is a listing of affiliates with which the AOCs engage in, or will engage in, affiliate transactions. Also included is a brief narrative of each affiliate describing the nature of its business, including whether it was established to meet the requirements of Section 272 of the Telecommunications Act of 1996, or whether the affiliate exists solely to provide services to members of the AOC's corporate family. Additional information about these subsidiaries may be found in Section IV, Corporate Organization, of the ACAM.

Ameritech Advanced data services (AADS)

AADS is incorporated in each of the five states within the Ameritech region. These companies are wholly-owned subsidiaries of Ameritech Corporation (or Ameritech) providing business customers with advanced data communications services.

Ameritech Capital Funding Corporation (ACFC)

This wholly-owned subsidiary of Ameritech arranges debt financing for Ameritech's nonregulated subsidiaries.

Ameritech Communications, Inc. (ACI)

ACI is the Ameritech Section 272 subsidiary, and is wholly-owned by Ameritech Corporation. When authorized, this subsidiary will provide in-region interLATA telecommunications services. For the states of Illinois and Wisconsin, Ameritech Communications, Inc., has wholly-owned subsidiaries. Ameritech Global Gateway Services and Ameritech Communications International, Inc., are wholly-owned subsidiaries of Ameritech Communications, Inc., providing out-of-region interLATA services. Please note that Ameritech Global Gateway Services and Ameritech Communications International are not subject to Section 272 of the Telecommunications Act of 1996.

Ameritech Center Phase I, Inc. (ACP)

ACP is owned in part by Ameritech Corporation (51% equity interest). The remaining 49% equity interest is owned by Ameritech Services, Inc. This affiliate exists solely to provide services to members of the AOC's corporate family.

Ameritech Corporation (Ameritech or AIT)

Ameritech is the holding company for the AOCs and subsidiaries who are primarily engaged in the provision of communications products and services. Ameritech is an affiliate existing solely to provide services to members of the AOC's corporate family.

Ameritech Credit Corporation (ACC)

ACC is a provider of capital financing and leasing services.

Ameritech Development Corporation (ADC)

ADC supports the growth of the Ameritech companies by finding and developing new products, services, technology and other business opportunities. ADC is a shell corporation with no employees.

Ameritech Information Industry Services, Inc. (AIIS)

AIIS is a wholly-owned subsidiary of Ameritech Corporation providing information services to third-party information providers.

Ameritech Information Systems, Inc. (AIS)

AIS is a wholly-owned subsidiary of Ameritech furnishing telecommunications and systems integration products to customers and operates divisions which sell and service voice and data systems for business use.



LISTING OF AFFILIATES *(Continued)*

Ameritech Interactive Media, Inc. (AIM)

AIM is a wholly-owned subsidiary of Ameritech Publishing, Inc. providing electronic yellow pages publishing services.

Ameritech Interactive Media Services, Inc. (AIMS)

AIMS is a wholly-owned subsidiary of Ameritech Publishing, Inc. controlling Ameritech's delivery, sales, marketing, development and strategy of its Internet products and services.

Ameritech International, Inc. (All)

All is a wholly-owned subsidiary of Ameritech responsible for developing business opportunities for Ameritech outside of the United States.

Ameritech Mobile Communications, Inc. (AMCI)

AMCI is wholly-owned by Ameritech and provides wire-free communications services to its customers, including cellular and digital mobile telecommunications services and equipment and paging products and services.

Ameritech New Media, Inc. (ANM)

ANM is wholly-owned by Ameritech and provides customers with cable television services.

Ameritech Payphone Services, Inc. (APPS)

APPS is a wholly-owned subsidiary of Ameritech Corporation. APPS, Inc., the parent company, will offer pay phone services outside of the Ameritech region. APPS, Inc. has five wholly-owned subsidiaries incorporated in each of the five states in the Ameritech region. These companies exist to offer pay phone services in those areas where Ameritech is not the local service provider.

Ameritech Publishing, Inc. (API)

API is a wholly-owned subsidiary of Ameritech that is in the business of directory advertising and publishing.

Ameritech Services, Inc. (ASI)

ASI is jointly owned by the AOCs. ASI provides the AOCs with operational support and centralized purchasing services for the AOCs that can most efficiently be delivered by a single organization. ASI is an affiliate existing solely to provide services to members of the AOC's corporate family.

Ameritech Telecommunications Services Company (ATSC)

ATSC is a wholly-owned subsidiary of Ameritech Corporation that will be used to provision directory assistance services.

Ameritech Wireless Communications, Inc. (AWC)

AWC is a wholly-owned subsidiary of Ameritech that holds FCC licenses to build and operate Personal Communications Services (PCS) systems.

Clover Technologies (CT)

CT is a wholly-owned subsidiary of Ameritech, and is a leading integrator of data and video technologies.

DonTech (DT)

DonTech is a partnership between Reuben H. Donnelley Corporation and Ameritech Publishing of Illinois, Inc. (itself a subsidiary of Ameritech Publishing, Inc.) conducting directory advertising and publishing services for Illinois Bell.



LISTING OF AFFILIATES *(Continued)*

National Telecommunications Alliance, Inc. (NTA)

Ameritech's one-seventh interest in NTA is owned by ASI. NTA provides the AOCs with centralized national security and emergency preparedness and network interoperability and interconnectivity services. NTA is an affiliate existing solely to provide services to members of the AOC's corporate family.

SecurityLink from Ameritech (SAL)

SAL is a wholly-owned subsidiary of Ameritech providing customers with remote electronic security monitoring services.

Starline Insurance Company (SIC)

SIC, a wholly-owned subsidiary of Ameritech, is a reinsurance captive insurer for general liability, automobile liability and workers' compensation insurance coverage and a direct writer of insurance for excess liability insurance coverage. SIC is an affiliate existing solely to provide services to members of the AOC's corporate family.

LISTING OF SERVICES AND ASSETS PROVIDED

RAO 26 requires that the AOCs provide a narrative description or provide a list of the services and assets provided between them and their nonregulated affiliates. The ACAM may combine various types of services or assets into homogeneous groupings for presentation purposes. Where services and assets are provided under more than one of the terms of transactions identified below/above/herein (e.g., FDC and Higher of FMV), an explanation is provided in the description and/or listing below. There are two sections containing descriptions. The first section corresponds to Exhibit V-1, Transactions Provided by the AOCs to Nonregulated Affiliates, and is titled as such. The second section is entitled, Transactions Provided by Nonregulated Affiliates to the AOCs, and is associated with Exhibit V-2. Finally, this section concludes with the listing of Exhibit V-1 and Exhibit V-2.

Transactions Provided by the AOCs to Nonregulated Affiliates

Account Maintenance - The AOCs provide information to third parties (i.e., primarily IXCs) about their presubscribed end-user customer base.

Billing and collection services - Include the appearance of billing medium on the AOCs' bill. This service also includes collection of the billed amounts by AOC service center employees. This service is also provided to third-party information providers and interexchange carriers. For DonTech, this service is provided at cost plus subsidy (per the FCC's Order in AAD Nos. 92-22 through 92-35 released May 7, 1993 [paragraph 16]). For all other affiliates, this service is provided at the AOCs' prevailing price.

Cable locate - The AOCs locate their cable for third parties and nonregulated affiliates. Where appropriate, this service is provided pursuant to tariffs (in Michigan, Ohio and Wisconsin) or at the higher of fully distributed cost and fair market value.

Centralized processing - Where the AOCs may perform support services such as printing and optical scanning to diskette for themselves, similar services are offered to nonregulated affiliates.

Conduit space rental - Includes rental of available space in conduits to third parties such as cable TV companies. This service is provided at prevailing price except in Michigan, Ohio and Wisconsin where it is tariffed.



Transactions Provided by the AOCs to Nonregulated Affiliates (Continued)

Construction services - The AOCs perform splicing, make ready work and trenching service for third parties and nonregulated affiliates. Where applicable, these services are provided pursuant to tariffs (e.g., FCC Tariff No. 3, state tariffs No. 20, Part 2, Section 5) or at fully distributed cost (where activity is not covered in the tariffs).

Employee staffing - Includes resume screening, testing and placement of employees into nonregulated affiliated company open positions on their behalf.

Engineering services - Includes field survey, planning and design services that are performed for third parties and nonregulated affiliates. Where appropriate, these services are provided pursuant to tariffs (e.g., FCC Tariff No. 3, state tariffs No. 20, Part 2, Section 5) or at fully distributed cost (where activity is not covered in the tariffs).

Environment, health and safety - The AOCs provide standard work place training, perform operational reviews and audits in conformance with Occupational Safety and Health Act (OSHA), Environmental Protection Agency (EPA) and other governmental agency requirements for nonregulated affiliates.

Financial and accounting services - Includes remittance processing and accounts payable activities.

Installation and maintenance - This includes the installation, maintenance and repair of inside wiring and customer premises equipment (CPE) to third parties and nonregulated affiliates. This also includes the installation, maintenance and repair of inside wiring and CPE for nonregulated affiliated company employees who are located in AOC owned premises.

Joint marketing of services - Primarily includes referrals to nonregulated company products and services by AOC customer services employees.

Listing services - The AOCs sell customer listings to third parties and nonregulated affiliates. For DonTech, this service is provided at cost plus subsidy (per the FCC's Order in AAD Nos. 92-22 through 92-35 released May 7, 1993 [paragraph 16]). For all other affiliates, this service is provided at the AOCs' prevailing price.

Loaned employees - AOC employees performing administrative functions are loaned to nonregulated affiliates for special projects of limited duration.

Mail pickup and delivery - This service includes pickup, sorting and delivery of intracompany and inter-company mail.

Maintenance and repair of facilities - AOC service technicians perform limited installation, maintenance and repair of equipment owned by nonregulated affiliated companies (e.g., paging transmitters, cellular towers, etc.).

Marketing and sales services - Includes work on Ameritech's brand image and direct marketing of nonregulated company products and services.

Motor vehicles - From time to time AOC owned trucks and cars are sold to nonregulated affiliates at the higher of fair market value and net book cost.

Official communications services - Includes tariffed intraLATA telecommunications, interLATA switched and private line services.



Transactions Provided by the AOCs to Nonregulated Affiliates (Continued)

Pole contact rental - Includes rental of space available on poles to third parties (such as power companies) and nonregulated affiliates. This service is provided at prevailing price except in Michigan, Ohio and Wisconsin where it is tariffed.

Public policy, government and community relations services - Includes monitoring public utility commission dockets and representing Ameritech at nonregulated company sponsored events.

Security services - Includes investigations, threat assessments and provision of awareness training related to theft, loss, fraud and violations of the "Code of Business Conduct."

Telecommunications services - Includes the sale of AOC tariffed access services, purchase of unbundled elements, resale, and other tariffed services.

Telephone answering service - AOC operators may direct calls, or care for overflow calls directed to nonregulated affiliates.

Training - Where AOC services (e.g., Centrex) are sold via nonregulated affiliates, the customer is provided training on features. Additionally, the AOCs train nonregulated affiliated sales personnel on various network features and marketing and sales techniques.

Use of motor vehicles - Includes the use of the AOCs' pool cars, and maintenance services for nonregulated company vehicles.

Use of physical space - The AOCs rent and lease space to nonregulated company employees and for nonregulated company equipment.

Transactions Provided by Nonregulated Affiliates to the AOCs

Accounting and finance - Includes accounting, auditing, banking, benefit investment fund management, budget analysis and control, capital recovery, cash management, corporate financial planning and analysis, disbursements, payroll, and securities management.

Administrative services - Includes providing multi-organizational services on a centralized basis, such as general security activities, insurance administration, office services, and maintenance of furniture and office equipment.

Advertising - Includes AOC advertising via Prepaid Phone Cards, on the Internet, and in white and yellow pages directories. These services are provided to third parties.

Audio announcement services - Includes audiotex storage and retrieval services to third parties and to the AOC at prevailing price.

Cable and wire facilities - From time to time nonregulated legal entity owned cable and wire facilities are sold to the AOCs at the lower of fair market value and net book cost.

Customer services - Includes establishing and servicing customer accounts and providing customer service advice.

Executive and planning - Includes formulating corporate policy, developing and evaluating long-term courses of action for future operations, and providing overall administration and management.



Transactions Provided by Nonregulated Affiliates to the AOCs (Continued)

External relations - Includes maintaining relations with government, regulators, other companies and the general public.

Frame relay switching - Is a variety of high-speed data transmission switching provided in conjunction with the AOCs frame relay tariffed service.

Human resources - Includes personnel development and staffing, benefit administration, occupational medicine, labor relations, and employee communications.

Information management - Includes planning, developing, testing, implementing and maintaining data bases and application systems, and the cost of renting, maintaining and repairing general purpose computers.

Installation and repair of CPE - Includes the installation and repair of Customer Premises Equipment.

Internet services - Includes web hosting and dedicated access which is provided to third parties and to the AOCs at prevailing price.

Leasing services - Includes leasing of computers and other office equipment at prevailing price.

Legal services - Includes representation in Federal regulatory and other legal proceedings.

Loaned employees - Employees of nonregulated affiliates performing administrative functions are loaned to the AOCs for special projects of limited duration.

Marketing - Includes market analysis and planning, product management, which is provided at fully distributed cost and sales, marketing and customer support of the AOCs' network services (and paging services where appropriate) at the lower of fair market value and fully distributed cost. Includes joint marketing where appropriate at the lower of fair market value and fully distributed cost.

Motor vehicle leasing - Includes leasing of motor vehicles.

Motor vehicles - From time to time nonregulated legal entity owned trucks and cars are sold to the AOCs at the lower of fair market value and net book cost.

National security, emergency preparedness, network interoperability and interconnectivity services - Includes security, emergency preparedness, network interoperability and interconnectivity services.

Office equipment leasing - Includes computer and other office equipment leasing which is provided to third parties and to the AOCs at prevailing price.

Official communications services - Includes the provision of interLATA switching, transport and 800 services.

Paging services - Includes numeric and alpha, digital and analog paging services and equipment provided to third parties and the AOCs at prevailing price.

Procurement - Includes negotiating supply contracts, and purchasing, storing, and delivering material and supplies.

Remote client server services - Includes software and telecommunications services necessary to allow computer access from remote sights via dial-up modem connection. This service is provided to third parties and to the AOCs at prevailing price.



Transactions Provided by Nonregulated Affiliates to the AOCs (Continued)

Security monitoring - Includes installation, maintenance, and repair of electronic security monitoring equipment which is provided to third parties and to the AOCs at prevailing price.

Technical services - Includes network planning and engineering support, the development of technical standards and operations guidelines.

Teleconferencing - Includes teleconferencing services.

Use of physical space - Include instances where nonregulated affiliates rent or lease space and provide centralized facilities and real estate portfolio management.

Wireless services and supplies - Includes cellular, digital and PCS services and supplies which are provided to third parties and to the AOCs at prevailing price.

White pages directory services - Includes compiling, printing and distribution of the AOCs directories. This service is provided to third parties and to the AOCs at prevailing price.

